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Fixed Income Research Update

Consumer ABS Q1 Update: Autos Dominate New Issuance

About \$24 billion of new issue consumer ABS was issued in the first quarter of 2010, an 86% increase over Q1 2009. The supply was led by issuance in the auto ABS sector. In Q1, there was \$17.7 billion of new auto ABS issued, more than double that of Q1 2009 and 70% greater than Q1 2008, a characteristic not shared by credit card or student loan ABS. Issuance of credit card ABS was very light as new issue supply declined 40% year-over-year to \$1.8 billion. Card ABS comprised only 8% of total consumer ABS supply for Q1 2010. Student loan ABS saw \$4.5 billion of new issue in Q1 2010, predominately backed by private credit student loans.

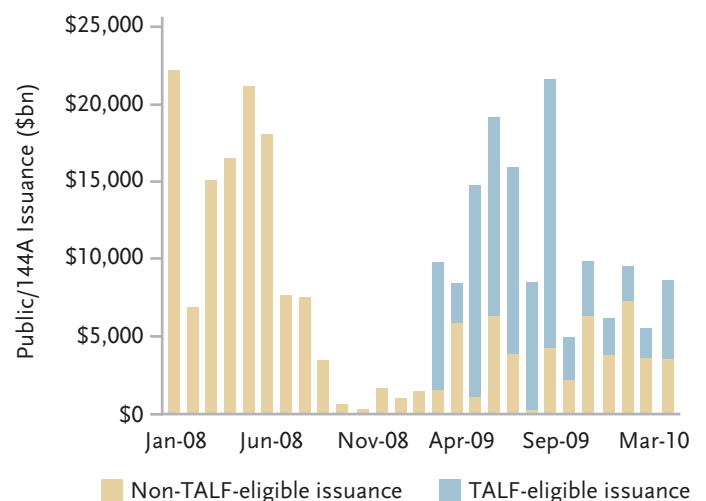
As TALF drew to an end this past quarter, there was a marked shift away from TALF eligible issuance as it became less compelling to purchase paper using TALF loans due to the significant tightening on AAA new issue spreads. As a result, the amount of TALF-eligible paper as a percentage of monthly issuance volumes gradually began to decline. In Q1 2010, TALF eligible paper only accounted for 37% of the new issue supply, down from 41% in Q4 2009. In Q2 and Q3 2009, TALF-eligible paper represented, on average, 62% to 83% of the monthly issuance volume, respectively. However, asset classes that relied heavily on TALF, such as private student loans, mortgage servicer advances, insurance premium finance and retail credit cards, will face a more challenging market environment post-TALF.

Consumer ABS Supply Led by Auto (\$bn)

	Autos	Credit Cards	Student Loans	Total Consumer ABS
Q1 2008	\$10.4	\$26.1	\$8.2	\$44.7
Full Year 2008	35.9	57.1	28.2	121.3
Q1 2009	7.9	3.0	2.0	12.9
<i>TALF eligible</i>	5.2	3.0	0.0	8.2
Full Year 2009	57.7	43.2	18.8	119.7
Q1 2010	17.7	1.8	4.5	23.9
<i>TALF eligible</i>	6.4	0.3	2.2	8.9

Source: Thomson Reuters, Bloomberg, Deutsche Bank

TALF Issuance Winds Down



Source: Thomson Reuters, Bloomberg, Deutsche Bank

Strength in Secondary Market

The secondary market was strong in the first quarter. Spreads across all sectors tightened. As a result of the significant tightening in on-the-run sectors, March saw an increased interest in esoteric / off-the-run ABS in the search for yield. Estimated BWIC activity totaled between \$20 and \$30 billion in Q1. Tiering within asset classes also seems to be collapsing in the secondary market.

Support for the rally in consumer ABS was also fueled by positive news in the consumer sector. Some highlights include:

- Real GDP growth at a pace of 5.9%.
- February personal income and outlays report revealing a 0.3% rise in consumer spending. The strength in spending relative to income pushed the saving rate down to 3.1% from 3.4%.
- The index of consumer confidence bounced to 52.5 in March after plummeting to 46.4 in February.
- The 4-week moving average of Initial jobless claims fell to 447,000, the lowest since September 2008.
- Motor vehicle sales jumped 14%, to 11.8 million SAAR, in March, leaving them up 22% year-over-year.
- Credit card trusts' February performance metrics revealed a continued trend of improvement in early delinquencies.

Some other significant developments in the consumer ABS space over the past quarter include:

- The placement of additional credit enhancement by Discover and Bank of America credit card trusts. Discover added an additional 400bps of protection for their DCMT and DCENT trusts. BofA boosted AAA enhancement over to 30%.
- Advanta Bank Corp was closed by regulators and placed into FDIC receivership. The move was expected since the November bankruptcy filing of its parent.
- Appropriation for the Federal Family Education Program (FFELP) will terminate in July 2010. All new government loans will be offered under the FDLP (direct lending) and serviced by five authorized servicers.
- The FDIC approved an extension of safe harbor protection for all securitizations through September 30, 2010. The extension is positive news for the credit card market; without it certain trusts faced the risk of rating downgrades and limited, if any, access to the ABS market.
- Toyota initiated an unprecedented recall of nearly 8 million vehicles and also instituted a production and sales halt in North America on eight of its popular models. As a result, recovery values of its recalled vehicles has decreased, potentially increasing severities in many of the Toyota Auto ABS pools. However, because Toyota Auto ABS transactions have high credit support, the recalls seem to have a minor impact on Auto ABS.

Optimism Going Forward

Looking ahead to the current quarter, we continue to see tightening in the ABS space, especially in sectors where there has not been much spread compression such as private student loans, retail cards, dealer floor plan, credit card subs and esoteric sectors such as airplane ABS. Financial reform legislation as proposed by Chris Dodd is also moving forward. Implementation of a financial reform bill could have a significant effect on the consumer ABS market. All-in-all, given that the economy continues to improve and the labor market stabilizes, we see a positive tone in the consumer ABS space for the second quarter and the rest of 2010.

Spreads (change from 12-31-09 to 3-31-10)

FIXED	Benchmark	Credit Cards	Auto Prime	Auto Near Prime
1-yr AAA	EDSF		-20	-40
2-yr AAA	Swaps	-10	-25	-55
3- yr AAA	Swaps	-10	-30	-80
5-yr AAA	Swaps	-25		
10-yr AAA	Swaps	-35		
b-piece (5-yr)	Swaps	-65		
c-piece (5-yr)	Swaps	-110		

FLOATING	Benchmark	Credit Cards	FFELP Student Loans	Private Student Loans
2-yr AAA	Libor	-25		
3-yr AAA	Libor	-30	-15	-150
5-yr AAA	Libor	-35	-15	
7-yr AAA	Libor	-35	-15	-175
10-yr AAA	Libor	-35	-20	
b-piece (5-yr)	Libor	-65		
c-piece (5-yr)	Libor	-110		

Source: JPM Research

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